R9050-12F 8/91

ISSUE BRIEF

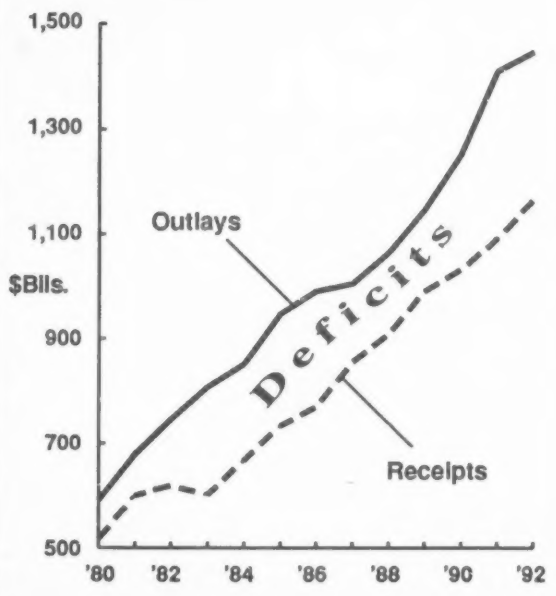
TAX FOUNDATION ◆ FEBRUARY 1991

The President's Fiscal Year 1992 Budget And Its Impact on the American Family

by Paul G. Merski

In the opening move of an annual budget game whose rules change almost every year, the President has presented his budget plan for fiscal year 1992 to the Congress. As the first budget released after passage of the Omnibus Budget Reconciliation Act of 1990 (OBRA), the FY92 budget is the next step in a five-year plan designed to restrain federal spending by establishing ceilings for government expenditure by category.

Figure 1
Federal Government Outlays, Receipts, and Deficits
1980 – 1992



Source: Tax Foundation

Fiscal year 1992's total outlays are expected to rise $36.3 billion to $1.446 trillion, a 2.6 percent increase. Coming on the heels of this year's 12.6 percent, $158 billion increase in spending, that may seem austere. But record deficits are in store for both years, reaching $318 billion in FY91 and $281 billion in FY92 (see table 1 and figure 1). The true budget costs of the recession, the S&L bailout and Operation Desert Storm remain unknown as the tab for each keeps running. Desert Storm will most likely be funded with special supplemental spending legislation and kept off-budget.

"Coming on the heels of this year's 12.6 percent, $158 billion increase in spending, [FY92's projected 2.6 percent increase] may seem austere. But record deficits are in store for both years, reaching $318 billion in FY91 and $281 billion in FY92."

The major economic assumptions used in the budget are presented in table 2. The administration anticipates a short recession and an economy growing at a healthy 3.1 percent during 1992 after a -0.3 percent decline for 1991. All other economic indicators are projected to improve in 1992 — from lower interest rates, unemployment, and prices — to higher corporate profits and personal income. Of course, if less favorable conditions prevail, deficit estimates will be tens of billions of dollars higher (see table 3).

The new budget reflects most of the spending

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restraints and revenue increases written into law last October when the President signed OBRA. Its tax increases will bring in an additional $194 billion between FY91 and FY95 (see table 4). Total budget receipts are estimated to rise 5.8 percent, or $60 billion in FY91, followed in FY92 by a 6.7 percent, $74 billion increase. Individual income taxes alone are expected to climb $36.9 billion in FY92 (see table 5).

President Bush's budget proposes changes in mandatory programs that are estimated to save $6.3 billion in FY92 and $47 billion over five years. Over half of these are Medicare reductions totaling $2.8 billion in FY92 and over $25 billion during the five-year period. Five major federal spending categories will see outlays increase by more than ten percent in FY92: general science & technology, energy, health, administration of justice, and general government (see table 6).

With little room for maneuvering due to OBRA's budget constraints and the burgeoning deficit figures, President Bush still put forward several initiatives. The budget includes a three-point savings initiative that would reduce the tax on capital gains to 19.6 percent by providing a maximum exclusion of 30 percent on gains from investments

Table 1
Total Federal Receipts and Outlays
Fiscal Years 1980-1992
($Millions)

Year	Receipts	Outlays	Receipts as a % of GNP	Outlays as a % of GNP
1980	$517,112	$590,920	19.4%	22.1%
1981	599,272	678,209	20.1	22.7
1982	617,766	745,706	19.7	23.8
1983	600,562	808,327	18.1	24.3
1984	666,457	851,781	18.1	23.1
1985	734,057	946,316	18.6	23.9
1986	769,091	990,258	18.4	23.7
1987	854,143	1,003,830	19.3	22.7
1988	908,954	1,064,051	19.0	22.3
1989	990,691	1,144,069	19.3	22.3
1990	1,031,308	1,251,703	19.1	23.2
1991	1,091,440	1,409,563	19.4	25.1
1992	1,165,029	1,445,902	19.5	24.2

Source: Office of Management and Budget.

Table 2
Economic Assumptions
Calendar Years 1989 – 1992
(Dollar Amounts in Billions)

	Actual	Assumptions		
	1989	1990	1991	1992
Annual Economic Assumptions:				
Gross National Product:				
Constant 1982 Dollars:				
Amount	4,118	4,152	4,140	4,267
Percent Change	2.5	0.8	-0.3	3.1
Incomes:				
Personal Income	4,384	4,664	4,856	5,182
Corporate Profits Before Tax	308	300	294	335
Price Level:				
Consumer Price Index:[a]				
Level (1982-84 = 100) annual average	122.6	129.1	135.8	141.2
Percent Change	4.8	5.3	5.2	4.0
Unemployment Rate, total annual average[b]	5.2	5.4	6.7	6.6
Interest Rates:				
91-day Treasury Bills[c]	8.1	7.5	6.4	6.0
10-year Treasury Notes	8.5	8.5	7.5	7.2

[a] CPI for urban wage earners and clerical workers.
[b] Percent of total; labor force, including armed forces residing in the U.S.
[c] Average rate on new issues within period, on a bank discount basis. Projections assume that interest rates decline with rate of inflation.
Source: Office of Management and Budget.

Table 3
Deficit Estimates
Fiscal Years 1991-1995
($Billions)

Scenario	1991	1992	1993	1994	1995
Consolidated Baseline	-310.3	-284.9	-212.3	-67.5	-12.1
Consolidated Baseline with pessimistic economics	-336.1	-326.0	-262.1	-126.3	-75.3
Consolidated Policy	-318.1	-280.9	-201.5	-61.8	-2.9
Policy excluding Social Security	-378.6	-343.3	-274.9	-151.1	-106.8
Policy excluding Deposit Insurance	-206.6	-192.8	-157.3	-99.9	-45.3
Policy excluding Social Security and Deposit Insurance	-267.1	-255.2	-230.7	-189.2	-149.1

Source: Office of Management and Budget.

Table 4
Omnibus Budget Reconciliation Act of 1990's Effect on Receipts[a]
Fiscal Years 1991-1995
($Billions)

Omnibus Budget Reconciliation Act of 1990	1991	1992	1993	1994	1995
Individual Income Taxes	$4.6	$10.2	$7.8	$9.9	$10.1
Corporate Income Taxes	3.8	2.4	2.7	2.5	2.3
Social Insurance Taxes and Contributions	4.6	10.5	8.8	11.1	11.7
Excise Taxes	12.5	17.1	18.2	19.3	20.0
Estate and Gift Taxes	*b*	*b*	-.1	-.3	-.4
Customs and Duties Fees	.3	.4	.5	.5	.5
Miscellaneous Receipts	.2	.4	.7	.7	.8
Total Omnibus Budget Reconciliation Act of 1990	26.0	40.9	38.5	43.7	45.0

[a] Estimates are based on direct effect of legislative changes at a given level of economic activity. Indirect effects on the economy are taken into account in forecasting incomes.
[b] $50 million or less.
Source: Office of Mangement and Budget.

Table 5
Federal Receipts by Source
Fiscal Years 1990-1992
($Millions)

Receipts	1990	1991	1992	Percent Change 1990-1991	Percent Change 1991-1992
Total net individual income taxes	$466,884	$492,635	$529,518	5.52%	7.49%
Total net corporation income taxes	93,507	95,866	101,913	2.51	6.32
Total social insurance taxes and contributions	380,047	401,955	429,363	5.76	6.82
Total excise taxes	35,345	44,810	47,768	26.78	6.60
Estate and gift taxes	11,500	12,241	13,265	6.44	8.37
Total custom duties and fees	16,707	17,698	19,295	5.93	9.02
Total miscellaneous receipts	27,316	26,236	23,907	-3.95	-8.88
Total budget receipts	1,031,308	1,091,440	1,165,029	5.83	6.74

Source: Office of Management and Budget; Tax Foundation computations.

held for more than three years; allow the use of Individual Retirement Accounts (IRAs) for first-time home purchases; and create a Family Savings Account which allows households with incomes below $120,000 to deposit up to $5,000 per year after taxes in seven-year, tax-free accounts. The President also proposes to expand and make permanent the 20 percent research and experimentation tax credit, extend the health insurance deduction for the self-employed, extend the low income housing tax credit, and establish enterprise zones. The estimated revenue effects of these proposals are shown in table 7.

The budget also proposes that a myriad of programs be cut or terminated to counterbalance the cost of those which will expand. Eliminating 238 programs will save $4.6 billion, and decreasing spending on another 109 programs would save $8.3 billion. Perhaps most noteworthy is the plan to bundle $15 billion worth of federal programs and shift them to state level control in the form of a block grant.

The New Budget Game

The Budget Enforcement Act of 1990 fundamentally restructured the Gramm-Rudman-Hollings deficit reduction law. Deficit targets are effectively eliminated for FY1991-1993. Spending is now divided into: 1) discretionary spending and 2) direct or mandatory spending, and the discretionary spending component is further divided into defense, international, and domestic categories, each with its own set spending cap (see table 8 and figure 2).

Under the new rules, lawmakers can neither decrease funding in one category to pay for increased spending in another, nor raise taxes to fund expenditures above the caps. If lawmakers exceed any of the set caps, an across-the-board cut (sequester) will be applied on all programs within the offending category.

Table 6
Federal Outlays by Function
Fiscal Years 1990 – 1992
($Millions)

Functions	1990	1991	1992	Percent Change 1990-1991	Percent Change 1991-1992
National Defense	$299,331	$298,910	$295,245	-0.14%	-1.23%
International Affairs	13,764	16,953	17,814	23.17	5.08
General Science, Space and Technology	14,444	15,781	17,452	9.26	10.59
Energy	2,358	2,617	3,710	10.98	41.77
Natural Resources and Environment	17,067	18,821	19,545	10.28	3.85
Agriculture	11,958	15,857	15,261	32.61	-3.76
Commerce and Housing Credit	67,147	119,506	92,788	77.98	-22.36
Transportation	29,485	31,469	32,707	6.73	3.93
Community and Regional Development	8,498	7,710	6,457	-9.27	-16.25
Education, Training, Employment and Social Services	38,497	42,800	45,530	11.18	6.38
Health	57,716	71,188	81,260	23.34	14.15
Medicare	98,102	104,433	113,720	6.45	8.89
Income Security	147,277	173,189	184,839	17.59	6.73
Social Security	248,623	268,965	288,632	8.18	7.31
Veterns Benefits and Services	29,112	31,483	33,001	8.14	4.82
Administration of Justice	9,995	12,567	14,486	25.73	15.27
General Government	10,724	11,169	13,183	4.15	18.03
Net Interest	184,221	197,038	206,343	6.96	4.72
Undistributed Offsetting Receipts	-36,615	-39,093	-40,780	6.77	4.32
Total Outlays	1,251,703	1,409,563	1,445,902	12.61	2.58

Source: Office of Management and Budget; Tax Foundation computations.

Pay-As-You-Go Rules

Under the new pay-as-you-go requirement, any new entitlements or tax legislation must balance out to be deficit neutral in each fiscal year. Lawmakers must offset any new or expanded entitlement spending or tax cuts with other entitlement reductions and tax increases. Any breach of this rule will trigger an across-the-board cut in all non-exempt entitlement programs.

Table 7
Impact of Proposed Legislation on Revenues[a]
Fiscal Years 1991 – 1995
($Billions)

Legislation	1991	1992	1993	1994	1995
Enhance long-term investment (Capital Gains)	.4	3.0	1.7	.9	1.8
Extend HI coverage to State and local employees[b]	-	1.1	1.5	1.5	1.5
Improve retail compliance with alcohol special occupational taxes[b]	-	c	c	c	c
Increase IRS enforcement funding	-	c	.1	.2	.2
Extend tax deadlines for Desert Shield participants	c	c	c	-	-
Extend railroad UI reimbursable status[b]	c	c	c	c	c
Increase HUD land sales fee	-	c	c	c	c
Extend abandoned mine reclamation fees	-	-	-	-	-
Extend R&E credit	-	-.5	-1.0	-1.3	-1.6
Extend R&E allocation rules	-	-.3	-.3	-	-
Establish family savings account	-	-.3	-.8	-1.3	-1.8
Extend health insurance deduction for self-employed	-	-.1	-.2	-	-
Extend low-income housing tax credit	-	-.1	-.2	-.3	-.3
Extend targeted jobs tax credit	-	-.1	-.1	-.1	c
Establish enterprise zones	-	c	-.2	-.3	-.5
Waive excise tax for certain early withdrawls from IRAs	-	c	-.1	-.1	-.1
Extend business energy tax credits	-	c	c	c	c
Double and restore adoption deduction	-	-	c	c	c
Extend Highway Trust Fund Taxes[b]	-	-	-	-	-
Total effect on receipts	.4	2.7	.6	-.7	-.9
Addendum					
Effect of proposals on receipts by source:					
Individual income taxes	.4	2.3	c	-1.2	-.9
Corporate income taxes	-	-.9	-1.2	-1.2	-1.7
Employment taxes and contributions	-	1.2	1.7	1.7	1.7
Unemployment insurance	c	c	c	c	c
Excise taxes	-	.1	.1	c	c
Miscellaneous receipts	-	-	-	-	-
Total effect on receipts	.4	2.7	2.7	-.7	-.9

[a] Estimates are based on direct effect of legislative changes at a given level of economic activity. Indirect effects on the economy are taken into account in forecasting incomes.
[b] Net of income offsets.
[c] $50 million or less.
Source: Office of Management and Budget; Tax Foundation computations.

Budget Impact on the Average American Family

The Tax Foundation has calculated the impact that the Administration's new budget would have on the bottom line of the typical American family: Two workers earning $46,000 with two dependent children will face a federal tax bill of $12,984 in 1991. This 28.2 percent tax bite from the family's income will cover its direct and indirect federal taxes, but not state or local taxes.

Direct vs. Indirect Taxes

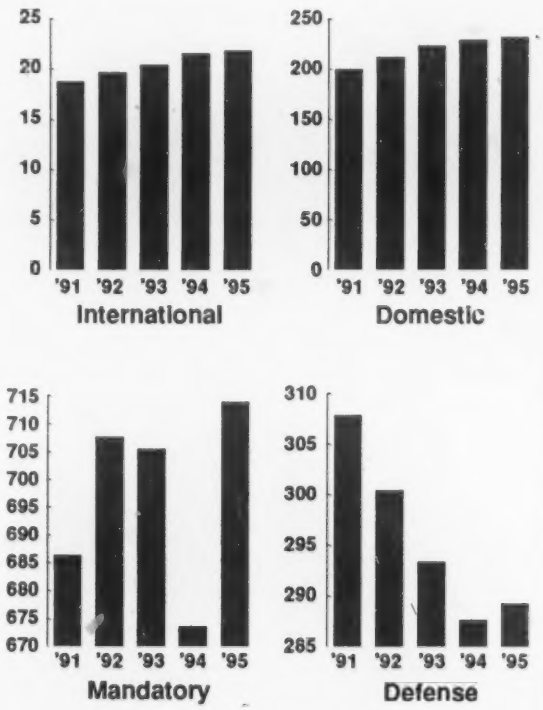
Direct federal taxes — individual income and personal Social Security taxes — will cost the typical family $8,314 in 1991. However, direct levies are by no means the whole tax burden, accounting for only about three-fifths of what the government takes in. To these must be added such indirect taxes as the employer's share of Social Security taxes; corporate income taxes; excise taxes on such items

Table 8
Spending, Revenue, and Deficits
Fiscal Years 1991 – 1995
($Billions)

	1991	1992		1993		1994		1995	
Spending:									
Discretionary:									
Defense	$307.8	$300.4	-2.4%	$293.3	-2.4%	$287.6	-1.9%	$289.2	0.5%
International	18.7	19.6	4.7	20.4	4.2	21.5	5.1	21.8	1.3
Domestic	199.8	212.0	6.1	223.2	5.3	228.9	2.6	231.7	1.2
Subtototal Discretionary	526.3	532.1	1.1	536.9	.9	536.0	.2	542.7	.9
Mandatory	686.2	707.5	3.1	705.3	-.3	673.5	-4.5	713.8	6.0
Interest	197.0	206.3	4.7	212.0	2.8	215.5	1.6	213.8	-.8
Total Spending	1,409.6	1,445.9	2.6	1,454.2	.6	1,427.1	-1.9	1,470.3	3.0
Total Revenues	1,091.4	1,165.0	6.7	1,252.7	7.5	1,365.3	9.0	1,467.3	7.5
Consolidated Deficit	318.1	280.9	-	201.5	-	61.8	-	2.9	-

Source: Office of Mangement and Budget.

Figure 2
Spending Categories and Caps in the Fiscal Year 1992 Budget
($Billions)



Source: Office of Management and Budget

as gasoline, liquor, and tobacco; and miscellaneous levies. OBRA increased many of these indirect taxes, notably on gasoline (9 to 14 cents per gallon), tobacco (16 to 20 cents per pack), beer (16 to 32 cents per 6-pack), wine (3 to 21 cents per bottle) and the telephone excise tax (permanently 3 percent). The typical, moderate-income family will notice the impact of these increases, and all told, indirect taxes will take $4,670 from the average family's income in 1991.

Direct and indirect federal taxes will claim 28.2 percent of this family's annual income, but even that does not tell the whole story. All told, current federal taxes and borrowing represents 35.2 percent of the moderate-income family's earnings.

How Does the Family Spend What's Left?

The family's first obligation after federal taxes is to state and local government. As figure 3 indicates, this additional tax payment brings the portion that taxes take from the average family's income to a hefty 37.3 percent. With the remaining disposable income, the family spends the bulk of its income on three items: housing and household expenses – 20.3 percent; transportation – 13.7 percent; and food and tobacco – 10.9 percent. After taxes and these expenditures, less than 18 percent of the family's income is left for such items as health care, recreation, clothing, personal insurance and pensions. (See figure 3 for more detail.)

How Does the Federal Government Spend the Tax Take?

Of that $12,984 the average family surrenders to Uncle Sam, nearly 80 percent will be commandeered by just four federal spending categories:

■ Income Security. It tops the list with $473.5 billion in federal government spending and includes Social Security, federal retirement, and unemployment compensation. It will claim 32 cents from each dollar the American family sends to Washington, for a per-family total of $4,148.

■ National Defense. Second in size, this will cost $295.2 billion — or 20 cents out of each tax dollar. The family's annual defense tab: $2,587 per year.

■ Interest on the National Debt. Ranking third at $206.3 billion, this payment accounts for 14 cents of the family's tax dollar, or a whopping $1,808 per year.

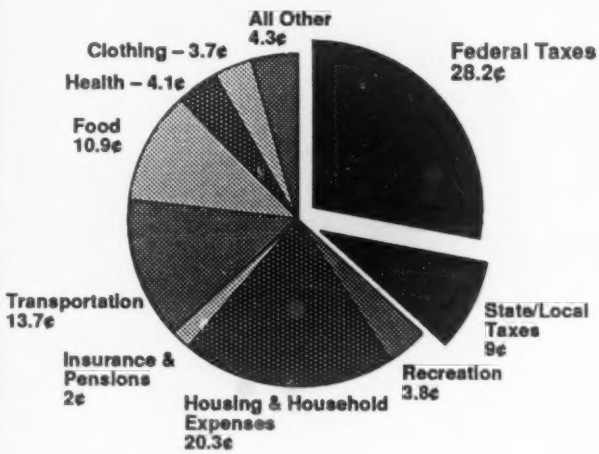
■ Health Outlays. This rapidly growing expenditure, comprised mainly of Medicare and Medicaid, will take 13 cents of each tax dollar. The typical family will send Uncle Sam $1,708 in 1990 to pay for the $195 billion national health bill.

These four items alone will cost the typical family $10,251, or 79 cents of each tax dollar. Spending on all other programs pales in comparison. With the remaining 21 cents, Uncle Sam will spend 3 cents of the family's tax dollar on education, and less than 3 cents each on environment, transportation, science, and administration of justice. (See figure 4 for more detail.)

* * *

Despite new budget procedures to control spending, the economy will have the last word. The performance of the economy will exert more influence on the budget outcome than will presidential and congressional negotiators. Most of fiscal year 1992 and beyond is predicated on revived economic vigor, falling interest rates, moderate inflation and rising productivity. If this does not play out, the stubborn deficits of the '80s will remain with us throughout the 1990s.

Figure 3
The Average American Family's Budget and How It Will Spend a Dollar in 1991[a]

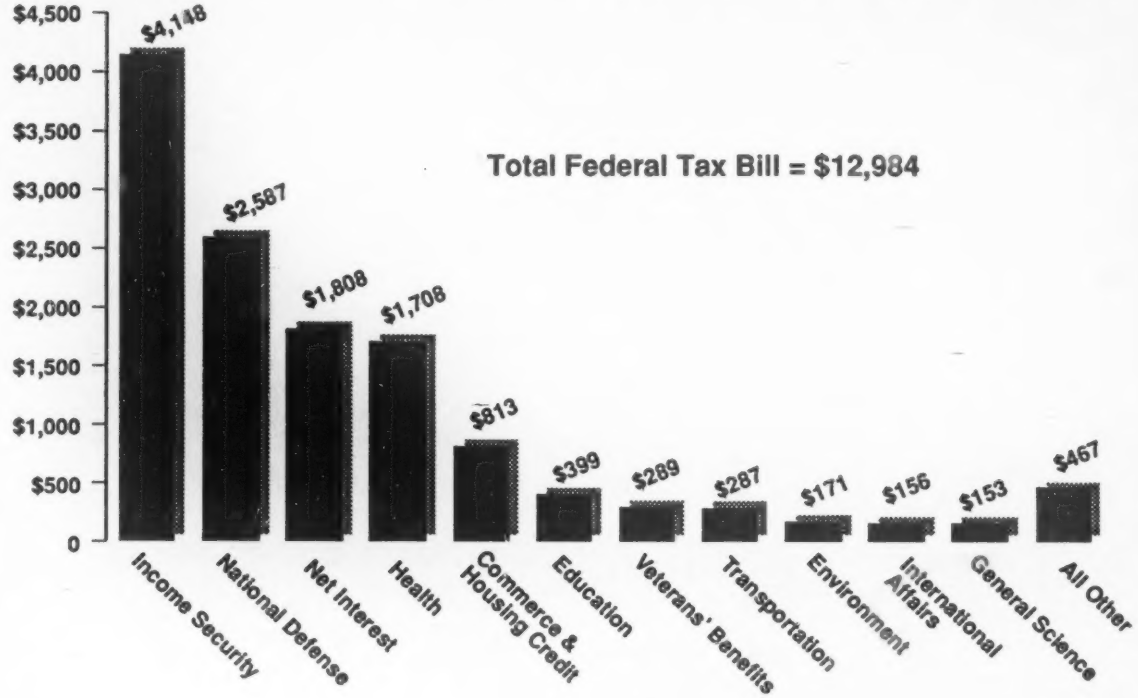


Source: Tax Foundation

Spending Category	Dollar Amount	Percent of Income
Family Income	$46,000	100.0%
Total Taxes	17,139	37.3
Federal Taxes	12,984	28.2
State and Local Taxes	4,155	9.0
After Tax Income	28,861	62.7
Total Personal Consumption Expenditures	28,861	62.7
Housing and Household Operations	9,329	20.3
Transportation	6,291	13.7
Food and Tobacco	5,031	10.9
Health/Personal care	1,872	4.1
Recreation	1,747	3.8
Clothing	1,716	3.7
Personal Insurance and Pensions	911	2.0
All Other	1,966	4.3

[a] This example uses a two-earner family earning $46,000 per year with two dependent children.

Figure 4
How the Federal Government Will Spend the Typical Family's Tax Payment in 1991[a]



Function	Family's Share		Total Spending (Billions)
	Amount	Percent of Total	
Income Security[b]	$4,148	31.95%	$473.5
National Defense	2,587	19.92	295.2
Net Interest	1,808	13.92	206.3
Health[c]	1,708	13.16	195.0
Commerce and Housing Credit	813	6.26	92.8
Education, Training, Employment, Social Services	399	3.07	45.5
Veterans' Benefits and Services	289	2.23	33.0
Transportation	287	2.21	32.7
Environment and Natural Resources	171	1.32	19.6
International Affairs	156	1.20	17.8
General Science,Space and Technology	153	1.18	17.5
Agriculture	134	1.03	15.3
Administration of Justice	127	.98	14.5
General Government	116	.89	13.2
Community and Regional Development	57	.44	6.5
Energy	33	.25	3.7
Total[d]	$12,984	100.00	$1,445.9

[a] This example uses a two-earner family earning $46,000 per year with two dependent children.
[b] Primarily social security. Includes federal employee retirement,unemployment compensation, and nutrition assistance. Excludes veteran's income security.
[c] Primarily Medicare and Medicaid. Excludes veteran's health care.
[d] After deducting $36.1 billion in undistributed and offsetting receipts not classified by function.
Source: Tax Foundation computations based on Fiscal Year 1992 U.S. Budget presented February 4, 1991 and 1991 tax laws from U.S. Department of Treasury.

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